

Becker Professional Education

Audit Course – Updates Included in V1.1

Lecture	Page, Item	Update
A1	A1-16, Item L	<p>Item L.2 and the Pass Key were corrected.</p> <p>Click here for the updated textbook page http://www.becker.com/sites/default/files/2015_aud_textbook_v.1.1_a1_pg_16.pdf</p>
A1	A1-59, additions to Item II. Reporting on Supplementary Information ...	<p>New pages A1-60 to A1-62 have been added. These pages outline the rules for reporting on supplementary information of nonissuers and issuers.</p> <p>Click here for the updated textbook pages http://www.becker.com/sites/default/files/2015_aud_textbook_v.1.1_a1_pg_60_62.pdf</p>
A2	A2-69, Item I.B.	<p>The bolded sentence below was added:</p> <p>B. Review Engagement Required</p> <p>When a comfort letter is to be issued, the CPA is required to perform a review of interim financial information in accordance with auditing standards. If the auditor states in the comfort letter that he or she issued a review report on unaudited interim financial information, then the auditor is required to attach the review report to the comfort letter.</p> <p>Note: Comfort letters are not required by or filed with the SEC, and they are not considered to be part of the registration statement within the meaning of the Securities Act of 1933.</p>
A3	A3-32, Box titled: “PCAOB Standards – Guidance for Issuers”	<p>The bolded sentence was added to this box:</p> <div style="border: 1px solid black; padding: 10px; background-color: #f0f0f0;"> <p style="text-align: center; background-color: #333; color: white; margin: 0;">P C A O B S T A N D A R D S — G U I D A N C E F O R I S S U E R S</p> <p>PCAOB standards state that the auditor should ask management and the audit committee whether they have received and responded to tips or complaints regarding the company's financial reporting. PCAOB standards also state that the auditor should ask the internal auditors regarding procedures performed to identify or detect fraud and whether management responded appropriately to any findings from those procedures. In addition, the auditor should ask management, the audit committee, and the internal auditors whether the company has entered into any significant, unusual transactions.</p> </div>

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Lecture	Page, Item	Update
A3	A3-22, Item C.2	<p>Replace the existing Item C.2 with the following:</p> <p>2. Evaluating the Internal Audit Function</p> <p>The external auditor may use the internal auditors to provide direct assistance or use the work of the internal audit function in obtaining audit evidence.</p> <p>a. Direct Assistance</p> <p>If the auditor plans to use the internal auditors to provide direct assistance, the internal auditor's competence and objectivity must be assessed.</p> <p>b. Use of Work of Internal Auditor</p> <p>The external auditor may be able to use the work of the internal audit function in obtaining audit evidence depending on the competency of the internal audit function, objectivity of the internal auditors, and whether the internal audit function applies a systematic and disciplined approach, including quality control.</p> <ol style="list-style-type: none">(1) Competence is reflected by education, professional certification, experience, performance evaluations, the audit plan, audit procedures, and the quality of internal audit documentation.(2) Objectivity is reflected by the organizational level to which the internal auditor reports, as well as by policies prohibiting audits of areas where the internal auditor lacks independence.(3) Application of a systematic and disciplined approach is reflected by the existence, adequacy, and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation, and reporting. In addition, the internal audit function may demonstrate a systematic and disciplined approach by applying appropriate quality control policies and procedures or quality control requirements in standards set by relevant professional bodies for internal auditors. (Quality control and related examples are discussed in more detail in Auditing 6 –Topic 5: <i>Quality Control Standards</i>.)

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A3	A3-44, Box at top of page titled: “PCAOB Standards – Guidance for Issuers”	<p>The box in the textbook should be replaced with the following:</p> <div style="border: 1px solid black; padding: 5px; background-color: #f0f0f0;"> <p style="text-align: center; margin: 0;">PCAOB STANDARDS — GUIDANCE FOR ISSUERS</p> <p>PCAOB standards state that the auditor should consider performing the following procedures to obtain an understanding of the nature of the entity:</p> <ul style="list-style-type: none"> • Read public information about the entity relevant to the evaluation of the likelihood of material financial statement misstatement and the effectiveness of the entity's internal control over financial reporting; • Observe or read transcripts of earnings calls and other publicly available meetings with investors and ratings agencies; • Obtain an understanding of compensation arrangements with senior management, including incentive compensation arrangements, changes or adjustments to those arrangements, and special bonuses; • Obtain information from SEC filings and other sources about trading activity in the entity's securities and holdings of significant shareholders; • Inquire of the chair of the compensation committee (or its equivalent), and any compensation consultants engaged by either the compensation committee or the company, regarding the structuring of the company's compensation for executive officers; and • Obtain an understanding of the company's established policies and procedures regarding the authorization and approval of executive officer expense reimbursement. </div>
A3	A3-47, Box titled: “PCAOB Standards – Guidance for Issuers”	<p>The words highlighted below were added to the first bullet point in this box:</p> <ul style="list-style-type: none"> • the nature and amount of assets, liabilities, and transactions executed at the location or business unit, including any significant transactions that are outside the normal course of business for the company or that otherwise appear to be unusual due to their timing, size, or nature ("significant unusual transactions");

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A4	A4-51, NEW Box titled: “PCAOB Standards – Guidance for Issuers”	<p>Add the following box to the top of this page:</p> <div style="border: 1px solid black; padding: 10px; background-color: #f0f0f0;"> <p style="text-align: center; margin: 0;">PCAOB STANDARDS—GUIDANCE FOR ISSUERS</p> <p>PCAOB guidance provides detailed procedures that should be performed to obtain an understanding of the company's relationships and transactions with its related parties, which include:</p> <ul style="list-style-type: none"> • obtaining an understanding of the company's process for identifying related parties, authorizing and approving transactions with related parties, and accounting for and disclosing relationships and transactions with related parties in the financial statements; • performing inquiries (discussed below); and • communicating with the audit engagement team and other auditors. <p>The auditor should inquire of management and others within the company who are likely to have knowledge of controls or transactions with related parties regarding:</p> <ul style="list-style-type: none"> • the names of the company's related parties during the period under audit, including changes from the prior period; • background information concerning the related parties (e.g., physical location, industry, size, and extent of operations); • the nature of any relationships, including ownership structure, between the company and its related parties; • the transactions entered into, modified, or terminated, with its related parties during the period under audit and the terms and business purposes (or the lack thereof) of such transactions; • the business purpose for entering into a transaction with a related party versus an unrelated party; • any related party transactions that have not been authorized and approved in accordance with the company's established policies or procedures regarding the authorization and approval of transactions with related parties; and • any related party transactions for which exceptions to the company's established policies or procedures were granted and the reasons for granting those exceptions. <p>The auditor should inquire of the audit committee, or its chair, regarding:</p> <ul style="list-style-type: none"> • the audit committee's understanding of the company's relationships and transactions with related parties that are significant to the company; and • whether any member of the audit committee has concerns regarding relationships or transactions with related parties and, if so, the substance of those concerns. </div>
A4	A4-51, NEW Box titled: “PCAOB Standards – Guidance for Issuers”	<p>Add the following box after Item G.:</p> <div style="border: 1px solid black; padding: 10px; background-color: #f0f0f0;"> <p style="text-align: center; margin: 0;">PCAOB STANDARDS—GUIDANCE FOR ISSUERS</p> <p>PCAOB guidance provides additional procedures that should be performed for each related party transaction that is either required to be disclosed in the financial statements or determined to be a significant risk:</p> <ul style="list-style-type: none"> • Determine whether any exceptions to the company's established policies or procedures were granted. • Evaluate the financial capability of the related parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees, and other obligations, if any. • Perform procedures on intercompany account balances as of concurrent dates, even if fiscal years of the respective companies differ. </div>

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Lecture	Page, Item	Update
A4	A4-58 to A4-61	<p>Item II. Evaluating Whether the Financial Statements are Free of Material Misstatement has been substantially updated.</p> <p>Click here for the updated textbook pages http://www.becker.com/sites/default/files/2015_aud_textbook_v.1.1_a4_pg_59_62.pdf</p>
A4	A4-69	<p>The following two ratios have been revised:</p> <p>8. Accounts payable turnover = $\frac{\text{Purchases}}{\text{Average accounts payable}}$</p> $= \frac{\$1,015,000}{(\$150,000 + \$125,000) / 2}$ <p style="text-align: center;">= 7.38 times</p> <p>This ratio indicates the number of times trade payables turn over during the year. A low turnover may indicate a delay in payment, such as from a shortage of cash. Purchases may be calculated based on the equation:</p> $\text{Beginning inventory} + \text{Purchases} - \text{Cost of goods sold} = \text{Ending inventory}$ $\$275,000 + \text{Purchases} - \$1,000,000 = \$290,000$ $\text{Purchases} = \$1,015,000$ <p>9. Days in accounts payable = $\frac{\text{Average accounts payable}}{\text{Purchases} / 365}$</p> $= \frac{365 \text{ days}}{\text{Accounts payable turnover}}$ $= \frac{365 \text{ days}}{7.38}$ <p style="text-align: center;">= 49.45 days</p> <p>This ratio indicates the average length of time trade payables are outstanding before they are paid.</p>
A4	New Appendix	<p>A new appendix on Adjusting Journal Entries has been added to the A4 lecture.</p> <p>Click here for the appendix http://www.becker.com/sites/default/files/2015_aud_textbook_v.1.1_a4_appendix_aje.pdf</p>

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Lecture	Page, Item	Update
A5	A5-41 to A5-42, Item b.	<p>A new sample combined report has replaced the one in the textbook.</p> <p>Click here for a link to the new report http://www.becker.com/sites/default/files/2015_aud_textbook_v.1.1_a5_pg_41_combined_report.pdf</p>
A5	A5-53, Item C.1.f	<p>At the top of the page, a new item f. was added:</p> <ul style="list-style-type: none">e. Any circumstances that may appear to impair independence (although presumably the auditor has concluded that independence has not been impaired).f. Evaluation of the company's identification of, accounting for, and disclosure of its relationships and transactions with related parties.g. Other issues that the auditor judges to be significant.
A6	A6-3 to A6-14	<p>The first part of Topic 1, Professional Responsibilities has been updated to reflect the AICPA's Codified Ethics Standard and Conceptual Frameworks.</p> <p>Click here for the updated textbook pages http://www.becker.com/sites/default/files/2015_aud_textbook_v.1.1_a6_pg_3_19.pdf</p>
A6	Topic 4, Government Auditing	<p>OMB Circular A-133 Audits is no longer the term used for the authoritative standards. The new source is Title 2 of the Code of Federal Regulations, 200.500–521. This new term replaces references to A-133 throughout this topic.</p>

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A6	A6-59, Item A.1	<p>The content of this page has been revised to cover the new Single Audit rules under Title 2 of the Code of Federal Regulations, 200.500-521. Note that the Single Audit threshold has increased from \$500,000 to \$750,000.</p> <p>The following section of this page has been updated:</p> <p>VII. SINGLE AUDITS: TITLE 2 OF THE CODE OF FEDERAL REGULATIONS, 200.500-521</p> <p>A. Responsibilities Under the Single Audit Act</p> <p>1. Entities Subject to the Single Audit Act</p> <p>The <i>Single Audit Act</i> is governed by provisions of federal regulations in 2 CFR 200.500-521, part of regulations included in what is commonly known as the "Super Circular." It requires entities that expend total federal assistance equal to or in excess of \$750,000 in a fiscal year to have an audit performed in accordance with the act.</p> <p>a. The act allows for either a single or program-specific audit. The program-specific audit election is only available to certain grant recipients who meet highly restrictive criteria, including:</p> <ul style="list-style-type: none">(1) Awards are expended under a single federal program.(2) No financial statement audit is required. <p>b. Nonfederal entities that expend less than \$750,000 a year in federal awards are exempt from federal audit requirements for that year.</p> <hr/>

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A6	A6-59, Item A.3 and new Item A.4	<p>The content of this page has been revised to cover the new Single Audit rules under Title 2 of the Code of Federal Regulations, 200.500-521. Note that the Single Audit threshold has increased from \$500,000 to \$750,000.</p> <p>3. Materiality Determinations</p> <p>The Single Audit Act requires that the materiality of the transaction or other compliance finding be considered separately in relation to each major program, not simply in relation to the financial statements taken as a whole.</p> <p>a. Major programs are determined in accordance with formulas prescribed by 2 CFR 200 single audit requirements. Generally, programs classified as major are those that expend \$750,000 or more in federal financial assistance, but smaller programs may be deemed major if they are classified as "high risk," even if they do not meet the monetary threshold. The Circular provides guidance on applying this "risk-based approach" to program selection.</p> <div style="border: 1px solid black; background-color: #f0f0f0; padding: 5px; margin: 10px 0;"> <p style="text-align: center; margin: 0;">PASS KEY</p> <p>The <i>audit threshold</i> for federal audit requirements is <i>expenditure of \$750,000</i> of federal financial assistance. <i>Single audits</i> are generally required unless the restrictive requirements of a program-specific audit are met. <i>Program-specific audits</i> are used when the expenditures are made under only <i>one program</i> and the terms of the award do not require a financial statement audit.</p> </div> <p>b. Under both GAAS and GAGAS, materiality is considered in relation to the financial statements being audited taken as a whole.</p> <div style="border: 1px solid black; background-color: #f0f0f0; padding: 5px; margin: 10px 0;"> <p style="text-align: center; margin: 0;">PASS KEY</p> <p>Remember, a single audit includes a separate evaluation of materiality for each major program selected.</p> </div> <hr/> <p>4. Audit Requirements Apply to Recipients and Subrecipients</p> <p>Audit requirements apply to recipients and subrecipients of federal financial assistance. Contractors have more limited requirements.</p> <div style="border: 1px solid black; background-color: #f0f0f0; padding: 5px; margin: 10px 0;"> <p style="text-align: center; margin: 0;">PASS KEY</p> <p><i>Federal award recipients</i> (e.g., a city expending funds received directly from the U.S. Department of Housing and Urban Development) or a <i>subrecipient</i> (e.g., a city expending funds received from a state that received the funds from the U.S. Department of Housing and Urban Development) are subject to audit requirements associated with federal financial assistance.</p> <p><i>Contractors</i> (e.g., those who are paid by recipients or subrecipients of federal financial assistance, such as an electrician performing service upgrades to a public housing authority) are not subject to the same audit requirements as recipients and subrecipients.</p> </div>

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A6	A6-60, Item C. to A6-62, A6-63, Item IX. Schedule of Findings and Questioned Costs to A6-64	Replace these pages (excluding item VIII. Reporting Requirements on pg. A6-63) from your materials and replace with the following pages. Click here for the updated textbook pages http://www.becker.com/sites/default/files/2015_aud_textbook_v.1.1_a6_pg_63_69.pdf